

## Message Text

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ACTION EUR-12

INFO OCT-01 NEA-10 ISO-00 CIAE-00 DODE-00 PM-05 H-01  
INR-10 L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15  
ICA-11 TRSE-00 OMB-01 AID-05 COME-00 EB-08 DOE-15  
SOE-02 OES-09 AGRE-00 STR-07 /123 W  
-----004111 132219Z /75

R 130802Z JUL 78  
FM AMEMBASSY ANKARA  
TO SECSTATE WASHDC 2605  
INFO AMCONSUL ADANA  
USINT BAGHDAD  
AMCONSUL ISTANBUL  
AMCONSUL IZMIR  
AMEMBASSY JIDDA  
AMEMBASSY KUWAIT  
AMEMBASSY MOSCOW  
AMEMBASSY TEHRAN  
AMEMBASSY TRIPOLI

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E.O. 11652 N/A  
TAGS: ENRG, EFIN, IR, IZ, TU  
SUBJ: PROGRESS IN TURKISH NEGOTIATIONS WITH PETROLEUM SUPPLIERS

REF: (A) TEHRAN 6428, (B) ANKARA 4745, (C) TEHRAN 2454,  
(D) ANKARA 4638, (E) ANKARA 1647, (F) ANKARA 3053,  
(G) ANKARA 2576

SUMMARY: TURKEY CONTINUES TO WORK OUT BILATERAL PAYMENTS  
ARRANGEMENTS IN ORDER TO ASSURE CONTINUATION OF ITS IMPORTED  
PETROLEUM SUPPLY. IRAN HAS AGREED TO EXTEND CREDIT TO  
TURKEY FOR IRANIAN CRUDE AND FUEL OIL AND TO ACCEPT VARIOUS  
TURKISH EXPORTS. TURKEY IS HOLDING DISCUSSIONS WITH AN  
IRAQI DELEGATION IN HOPES OF REPAYING ALMOST ONE-  
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HALF OF TURKEY'S PETROLEUM DEBTS TO IRAQ THROUGH TURKISH  
EXPORTS.  
END SUMMARY.

1. AFTER SIGNING FIVE-YEAR AGREEMENTS ON BILATERAL TRADE  
AND CREDIT WITH LIBYA IN MAY AND AGREEMENT IN PRINCIPLE  
FOR THREE YEARS OF BARTER TRADE WITH THE SOVIET UNION IN

JUNE, TURKEY HAS TURNED TO TWO MORE PETROLEUM EXPORTERS IN ORDER TO ASSURE THAT ITS OIL SUPPLY CONTINUES. IRAN AGREED ON JULY 4 TO FINANCE TURKISH IMPORTS DURING THE NEXT YEAR OF 1.5 MILLION TONS OF IRANIAN CRUDE AND FUEL OIL AND TO ACCEPT UNSPECIFIED QUANTITIES OF TURKISH EXPORTS. ON JULY 10, TURKEY BEGAN DISCUSSIONS WITH AN IRAQI DELEGATION, REPORTEDLY IN HOPE OF REPAYING ALMOST ONE-HALF OF TURKEY'S PETROLEUM DEBTS THROUGH TURKISH EXPORTS OVER THE NEXT TWO YEARS AND REFINANCING THE REST. TURKEY WANTS TO PERSUADE IRAQ, ITS PRINCIPAL OIL SUPPLIER, TO RESUME OIL EXPORTS TO TURKEY THAT HAVE VIRTUALLY HALTED SINCE THE BEGINNING OF 1978.

2. A TURKISH DELEGATION HEADED BY HIKMET CETIN, MINISTER OF STATE, SIGNED THREE ECONOMIC AGREEMENTS WITH THE IRANIANS ON JULY 4 IN TEHRAN. THE AGREEMENTS PROVIDE FOR SALE OF IRANIAN OIL TO TURKEY, GIVE IRANIAN CREDITS TO TURKEY TO COVER THE COST OF THIS OIL, PLAN FOR INCREASED TURKISH EXPORTS TO IRAN, AND ANTICIPATE CLOSER BILATERAL ECONOMIC COOPERATION.

3. UNDER A PETROLEUM SUPPLY AGREEMENT BETWEEN A STATE-OWNED TURKISH REFINERY (IPRAS) AND IRANIAN NATIONAL OIL COMPANY (INOC), IRAN HAS UNDERTAKEN TO SUPPLY ONE MILLION TONS OF CRUDE AND 500,000 TONS OF FUEL OIL TO IPRAS, TURKEY'S LARGEST REFINERY, DURING THE NEXT TWELVE MONTHS. LIMITED OFFICIAL USE

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AGREEMENT SPECIFIES QUALITY OF IRANIAN OIL AND TRANSPORTATION ARRANGEMENTS. OIL WILL BE PURCHASED AT PREVAILING OPEC PRICES.

4. UNDER A CREDIT AGREEMENT, IRANIAN FINANCE MINISTRY AND GENERAL DIRECTORATE OF INDUSTRIAL AND TECHNICAL COOPERATION WILL EXTEND CREDITS TO TURKISH CENTRAL BANK COVERING THE ENTIRE COST OF THE OIL. AGREEMENT DEFERS PAYMENT FOR A PERIOD OF 14 MONTHS AFTER EACH DELIVERY OF OIL TO TURKEY, AT WHICH TIME TURKISH CENTRAL BANK WILL REPAY IRAN THE FULL COST OF EACH SHIPMENT AND ACCRUED INTEREST. INTEREST RATE WILL BE SIX PERCENT PER ANNUM.

5. A FRAME AGREEMENT BETWEEN THE GOVERNMENTS OF TURKEY AND IRAN PROVIDES GENERALLY FOR TURKISH EXPORTS TO IRAN AND FOR BILATERAL ECONOMIC COOPERATION. TURKEY HOPES TO EARN ABOUT \$100 MILLION PER YEAR BY EXPORTS TO IRAN OF CEMENT, GLASS, WHEAT, BARLEY, CITRUS FRUITS, MEAT, AND LIVE SHEEP. EMBASSY CONTACT CONFIRMS THAT TURKISH EXPORTS WILL BE PAID FOR IN CASE ACCORDING TO ARRANGEMENTS THAT ARE YET TO BE MADE CONCERNING PRICES, QUALITY, AND QUANTITY (REF A). THE TWO GOVERNMENTS WILL COOPERATE ON

TOURISM, TELECOMMUNICATIONS, TRANSPORTATION, AND LIVE-STOCK BREEDING.

6. IN A SEPARATE DEVELOPMENT, AN IRAQI DELEGATION, HEADED BY THE UNDER SECRETARY OF THE MINISTRY OF TRADE, IS MEETING WITH THE GOT IN ANKARA JULY 10-14 ON EXPANSION OF TURKISH EXPORTS TO IRAQ DURING THE NEXT TWO YEARS, ACCORDING TO AN ARTICLE IN PRO-GOVERNMENT "MILLIYET" OF JULY 12 BY NILUFER YALCIN, USUALLY A RELIABLE SOURCE. YALCIN REPORTS THAT IRAQI DELEGATION POSTPONED SUBJECT OF TURKEY'S REPAYING ITS \$330 MILLION OIL DEBT FOR CONSIDERATION AT SUBSEQUENT MEETING AT UNSPECIFIED DATE IN BAGHDAD. MOREOVER, IRAQ WILL NOT RESUME SUPPLYING CRUDE OIL TO TURKEY UNTIL POLITICAL CONTACTS ARE MADE  
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AT A HIGHER LEVEL, SHE SAYS. TURKS ARE REPORTEDLY TRYING TO ARRANGE FOR EXPORTS TO IRAQ VALUED AT \$150 TO \$160 MILLION DURING THE NEXT TWO-YEAR PERIOD, HALF OF WHICH IRAQIS SAY THEY COULD PURCHASE "THIS YEAR". ACCORDING TO YALCIN, IRAQIS ARE PRIMARILY INTERESTED IN TURKISH FOODSTUFFS AND CEMENT BUT TURKS ARE TRYING TO CONVINCE THEM TO IMPORT TURKISH DURABLE CONSUMER GOODS.

7. COMMENT: IRAN. MFA SPECIALIST IN PETROLEUM AFFAIRS, SANLI TOPUZCUOGLU, SAID THAT PETROLEUM SUPPLY AND CREDIT AGREEMENTS WITH IRAN WILL BE IMPLEMENTED AS SOON AS A FEW "ADMINISTRATIVE FORMALITIES" CAN BE COMPLETED; THESE MAY TAKE TWO OR THREE WEEKS. TOPUZCUOGLU, WHO RETURNED FROM THE NEGOTIATIONS IN TEHRAN TO PLUNGE INTO THE TALKS WITH IRAQ, EXPECTS TURKISH TANKERS TO SET OUT FOR PERSIAN GULF VERY SHORTLY. ALTHOUGH SUCH AGREEMENTS ARE USUALLY GAZETTED IN TURKEY, HE DOES NOT BELIEVE THAT THE TURKISH-IRANIAN AGREEMENTS WILL BE PUBLISHED, BUT TURKISH LEGAL ADVISORS HAVE YET TO EXPRESS AN OPINION ON THIS SUBJECT. ON THE BASIS OF REF C, WE JUDGE THAT IRAN RATHER THAN TURKEY MAY PREFER SUCH CONFIDENTIALITY.

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ICA-11 TRSE-00 OMB-01 AID-05 COME-00 EB-08 DOE-15  
SOE-02 OES-09 AGRE-00 STR-07 /123 W  
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R 130802Z JUL 78  
FM AMEMBASSY ANKARA  
TO SECSTATE WASHDC 2606  
INFO AMCONSUL ADANA  
USINT BAGHDAD  
AMCONSUL ISTANBUL  
AMCONSUL IZMIR  
AMEMBASSY JIDDA  
AMEMBASSY KUWAIT  
AMEMBASSY MOSCOW  
AMEMBASSY TEHRAN  
AMEMBASSY TRIPOLI

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8. WITH THESE ARRANGEMENTS, TURKEY APPEARS TO HAVE MADE SOME PROGRESS TOWARD OVERCOMING THE STALEMATE IN ITS ECONOMIC RELATIONS WITH IRAN. UNTIL NOW, IRAN HAS INSISTED THAT TURKEY PAY CASH FOR IRANIAN OIL (REF C). TURKEY HAS NOW MANAGED TO DEFER PAYMENT FOR 14 MONTHS ON OIL IMPORTS ESTIMATED TO BE WORTH FROM \$135 TO \$150 MILLION. SUCH SHORT-TERM CREDIT IS PRECISELY WHAT TURKEY NEEDS MOST NOW AND SIX PERCENT IS AN UNUSUALLY LOW-INTEREST RATE. HOWEVER, THERE IS NOT YET ANY INDICATION WHETHER IRAN WILL BE WILLING TO ENTER LONGER-TERM PAYMENTS ARRANGEMENTS SUCH AS THOSE TURKEY HAS AGREED TO ESTABLISH WITH LIBYA AND THE SOVIET UNION. (FYI: ON JULY 11, TURKISH PRESS REPORTED THAT LIBYA'S \$100 MILLION OF UNRESTRICTED PROGRAM CREDITS WILL BE LIMITED OFFICIAL USE

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AVAILABLE BY JULY 31 AT 8.5 PERCENT INTEREST RATE AND THAT THREE-YEAR TRADE AGREEMENT WITH USSR WILL BE SIGNED ON AUGUST 20.)

9. THE AMOUNT OF OIL WHICH IRAN HAS AGREED TO FINANCE IS 15 PERCENT LESS THAN TURKEY IMPORTED FROM IRAN LAST YEAR (1.8 MILLION TONS), ALL OF WHICH WAS CRUDE. IF TURKEY WERE TO IMPORT ONLY THE AMOUNT OF OIL WHICH IRAN HAS OFFERED TO FINANCE, IRAN'S EXPORTS WOULD ACCOUNT FOR

APPROXIMATELY 8 PERCENT OF TURKEY'S ANNUAL IMPORTS OF CRUDE AND ABOUT 30 PERCENT OF TURKEY'S ANNUAL IMPORTS OF FUEL OIL. FOR THE FIRST TIME, PART OF IRAN'S OIL EXPORTS TO TURKEY WILL BE FUEL OIL. THE 500,000 TONS OF FUEL OIL WOULD BE ENOUGH TO ALLOW TURKEY TO INCREASE ITS IMPORTS OF FUEL OIL BY 50 PERCENT OVER THE LEVEL REACHED IN 1977, CONTINUING THE TREND OF THE PAST FEW YEARS. (FYI: FUEL OIL IS USED PRIMARILY FOR ELECTRICITY GENERATION AND SPACE HEATING IN TURKEY).

10. ACCORDING TO TOPUZCUOGLU, TURKEY'S ARRANGEMENT WITH IRAN DOES NOT ESTABLISH ANY DIRECT LINKAGE BETWEEN IRAN'S OIL EXPORTS TO TURKEY AND TURKEY'S EXPORTS TO IRAN. CONSEQUENTLY, THE IRANIAN AGREEMENTS DO NOT APPEAR TO EMBASSY TO CONSTITUTE A DISGUISED BARTER ARRANGEMENT SUCH AS THAT ESTABLISHED BETWEEN TURKEY AND LIBYA, IN WHICH CASE THE AMOUNT OF TURKISH EXPORTS WAS SPECIFIED IN THE TRADE AGREEMENT (REF D). IN A RECENT CONVERSATION WITH EMBOFF, DIRECTOR GENERAL OF TURKISH TREASURY AYSEL OYMEN EXPRESSED CONVICTION THAT TURKISH AGREEMENTS WITH IRAN AND LIBYA PROVIDING FOR TURKISH IMPORTS OF OIL AND EXPORTS OF OTHER GOODS WILL NOT BE A CAUSE OF CONCERN FOR THE IMF, EVEN THOUGH IRAN AND LIBYA ARE IMF MEMBERS.

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11. THE ONLY HINT OF ANY OBLIGATION THAT TURKEY MIGHT HAVE UNDERTAKEN TOWARD IRAN IN RETURN FOR THESE OIL CREDITS IS FOUND IN A REFERENCE IN THE FRAME AGREEMENT TO BILATERAL COOPERATION IN THE TRANSPORTATION SECTOR. TURKEY MAY HAVE AGREED TO MAKE CONCESSIONS TO IRAN ON THE TIR RATE FOR IRANIAN TRUCKS TRANSITING TURKEY. THIS TOPIC HAS BEEN A MAJOR IRRITANT IN TURKISH-IRANIAN RELATIONS, CAUSING IRAN TO WITHHOLD \$1.2 BILLION IN DEVELOPMENT CREDITS EARLIER PROMISED TO TURKEY.

12. IRAQ. ALTHOUGH TURKEY'S AGREEMENTS WITH IRAN ARE CLEARLY A BREAKTHROUGH, TURKEY'S LEADING PETROLEUM SUPPLIER IS IRAQ, WHICH FURNISHED 56 PERCENT (6.6 MILLION TONS) OF TURKEY'S CRUDE IMPORTS IN 1977. TURKEY HAS BEEN FORCED TO OBTAIN MUCH OF ITS OIL IMPORTS THROUGH SPOT PURCHASES SINCE IRAQ HALTED ITS OIL SUPPLY TO TURKEY AT THE BEGINNING OF 1978. CONSEQUENTLY, TURKEY'S CURRENT TALKS WITH IRAQ ARE PARTICULARLY CRITICAL. THESE TALKS ARE AT A LOWER LEVEL THAN THOSE WITH IRAN; THEY ARE DESCRIBED AS "TECHNICAL TALKS". WITH ITS USUAL OPTIMISM, THE TURKISH PRESS IS PREDICTING THAT TURKEY HOPES TO HAVE THE PIPELINE FROM IRAQ OPERATING AGAIN BY THE END OF JULY. HOWEVER, EMBASSY EXPECTS THAT IT MAY TAKE SEVERAL MONTHS FOR IRAQ AND TURKEY TO WORK OUT THEIR FINANCIAL

AND COMMERCIAL PROBLEMS.

13. LOCAL REPRESENTATIVE OF CITIBANK TOLD EMBOFF  
JULY 10 THAT HE THOUGHT IT POSSIBLE THAT THE TWO  
SIDES WILL DISCUSS HIS BANK'S OFFER TO EXTEND A LOAN  
TO TURKISH CENTRAL BANK TO BE USED TO REPAY ALL OR  
PART OF ARREARS DUE IRAQ FOR OIL SHIPMENTS TO TURKEY.  
CITIBANK HAS ASKED THAT IRAQ GUARANTEE THE LOAN. IF  
YALCIN IS CORRECT, THIS SUBJECT WILL NOT BE TREATED  
IN ANKARA. TERCUMAN REPORTED JULY 12 THAT ENERGY  
MINISTER DENIZ BAYKAL HAS BEEN INVITED TO GO TO  
BAGHDAD TO DISCUSS PROBLEM OF PETROLEUM DEBT.  
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14. EMBASSY WILL SEEK INFORMATION ABOUT OUTCOME OF  
TALKS WITH IRAQ AND REPORT. DILLON

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## Message Attributes

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**TAGS:** ENRG, EFIN, IR, IZ, TU  
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